The Political Economy of Economic Growth.

An analysis and response to Positive Money's new proposals.

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Summary

The report The Tragedy of Growth from the British NGO Positive Money identifies the pursuit of endless economic growth as inimical to the enhancement of life satisfaction, poverty alleviation and environmental protection. Rather than calling for better or greener growth, they call for its abandonment as policy goal. While agreeing with this broad orientation this review looks closely at the report's policy proposals and the economic theory behind them. Positive Money sees the issuance of money through credit operations as the main growth imperative under capitalism. We argue that this causality is back to front: growth imperatives lie predominantly in the production system of expanded reproduction. Credit facilitates this. Banking

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is only one source of credit for capitalist expansion. We argue that contrary to Positive Money's view that money itself can be reformed, this is a misunderstanding of the nature of money whether in pre-capitalist or capitalist systems. Money is not reducible to credit (or debt) and taking credit relations out of money is infeasible. We also review the specific policy proposals in the report. While we agree with some of them, we do not see them as adding up to an effective programme for the removal of growth-imperatives: an alternative package of measures is outlined. Finally, we make some observations about the political economy of reform.

Introduction

Since Steady State Manchester started up in 2012, arguments that were very much on the margins have become, if not mainstream then much more frequently voiced. The core idea is that economic growth and the associated, continual expansion of material flows, not only fails to deliver social and economic well-being, but also fundamentally undermines the ecological and planetary systems on which human and other life relies.

A recent manifestation of this was the former labour shadow minister, Clive Lewis MP, joining a panel, with the Chair of the independent but governmental Committee on Climate Change, former Tory MP John Selwyn Gummer (now enobled as Lord Deben) and (more predictably) the Green Party MP Caroline Lucas, to launch a report titled "The Tragedy of Growth"[2].

The Tragedy of Growth (hereafter ToG) comes from the British NGO, Positive Money. Positive Money (PM) has been around for several years and is best known for its calls for changing the foundations of the money system. This is the second report from PM on tackling the drivers of economic growth. The first, in 2018 was "Escaping Growth Dependency"[3]. While welcoming their first report as drawing attention to GDP growth as a serious problem, in a detailed review, we were highly critical of PM's proposed solutions[4].

What do we think of the new report, and more importantly, how can the forces and factors that engender continued growth of the material economy be dealt with? By way of a comradely critique of the new Positive Money report (ToG) we'll also offer some clues for solving the fundamental problem of the systemic bias towards capitalist expansion.

2 Barmes, D., & Boait, F. (2020). *The Tragedy of Growth*. Positive Money. https://positivemoney.org/publications/tragedy-of-growth/

3 Positive Money. (2018). *Escaping Growth Dependency.* Positive Money. http://positivemoney.org/publications/escaping-growth-dependency/

4 Burton, M. (2018). We need to end growth dependency, but how? [Steady State Manchester]. *Steady State Manchester*. https://steadystatemanchester.net/2018/02/23/we-need-to-end-growth-dependency-but-how/

First though, a quick note on terminology. The fundamental problem is the ever increasing flow of materials (and energy), both renewable and non-renewable, via the activities of extraction, production, distribution and use, to eventual disposal or dispersal, into the “sinks” in the plant's air, soil and water. These flows are linked to what is measured as economic activity, conventionally via measures such as Gross Domestic Product (GDP). While, in principle, economic activity can diverge from material flows, in practice, such decoupling is at best only relative[5]: the two things[6] are linked and they mostly vary together. Therefore it is reasonable to use the term “economic growth” as a shorthand for the more fundamental problem of growth in material flows, and reasonable to try and tackle the drivers of economic growth as part of a wider strategy for protecting global ecosystems while providing for human well-being. Although “growth” is a system outcome, not a fundamental property of the system[7] (the drivers of growth are more akin to those systemic origins of growth), it does have a material force in determining political and policy priorities[8].

Growth imperatives

After a good review of the social and economic problems that continual economic growth brings, and a proposal for getting rid of the GDP statistic, ToG then explores the question of what drives economic growth.

> *“ ... the structures of our economic system that demand GDP growth must be identified, so they can be safely adapted or replaced. These structures - referred to as growth imperatives - require growing GDP in order for financial, economic, and social systems to be relatively stable. If growth is low, zero or negative, growth imperatives generate crises. …*
> *The monetary system is central to these dynamics, as interest-*

5 Burton, M. (2016, April 15). New evidence on decoupling carbon emissions from GDP growth: What does it mean? Steady State Manchester. https://steadystatemanchester.net/2016/04/15/new-evidence-on-decoupling-carbon-emissions-from-gdp-growth-what-does-it-mean/
Parrique, T, Barth, J, Briens, F, Kerschner, C., Kraus-Polk, A, Kuokkanen, A, & Spangenberg, J.H. (2019). Decoupling debunked: Evidence and arguments against green growth as a sole strategy for sustainability. European Environmental Bureau. http://eeb.org/library/decoupling-debunked
Schröder, E., & Storm, S. (2018). Economic Growth and Carbon Emissions: The Road to ‘Hothouse Earth’ is Paved with Good Intentions. Institute for New Economic Thinking. https://www.ineteconomics.org/uploads/papers/WP_84.pdf
Wiedmann, T. O., Schandl, H., Lenzen, M., Moran, D., Suh, S., West, J., & Kanemoto, K. (2015). The material footprint of nations. Proceedings of the National Academy of Sciences, 112(20), 6271–6276. https://doi.org/10.1073/pnas.1220362110

6 Or more fully, the three spheres of materiality, use values and exchange values: https://steadystatemanchester.net/2019/09/12/six-problems-for-green-deals/

7 Pirgmaier, E., & Steinberger, J. (2019). Roots, Riots, and Radical Change—A Road Less Travelled for Ecological Economics. *Sustainability*, *11*(7), 2001. https://doi.org/10.3390/su11072001

8 Burton, M., & Somerville, P. (2019). Degrowth: A Defence. *New Left Review*, *115*, 95–104. https://newleftreview.org/II/115/mark-burton-peter-somerville-degrowth-a-defence

bearing debt created by commercial banks led to the development of capitalism and its growth imperatives. We find that a monetary system based on interest-bearing debt is incompatible with a non-growing economy. This shows the need for transformative monetary and financial policies to escape the growth imperatives of capitalism." (ToG, p. 20)

This is a rather strange formulation, and in its own terms, ToG's assertion that high debt acts as a brake on growth might be thought to call into question the primacy of interest bearing debt as a growth imperative. Growing GDP is said to be required, under the present system, for stability, and the imperative for growth arises once growth slows. This all seems rather back to front. Instead, as we have previously argued, the key to capitalism's growth imperative lies in production, and specifically in what Marx called "expanded reproduction", whereby with each cycle of investment of money, production of commodities and their realisation as money, there is an increase in capital (which passes from money, to the means of production, to the produced commodity to the proceeds of sales and the profits made). They key to this is the expropriation of surplus value in the production process (labour exploitation): workers generate more exchange value than that allocated to them in the form of wages. Credit and its availability is essential to this process, but while it is a facilitating and limiting factor, it is not the fundamental driver. This can be shown by a simple thought experiment.

> Suppose you are an industrial capitalist and you are told that the amount of credit available has increased: do you take all that's offered irrespective of the likelihood of making a return sufficient to repay this greater loan and its interest, or do you take what you need to meet the requirements of expansion that is feasible given the supply of labour, machinery and other plant, of feedstocks, and the possibility of selling what's produced?
>
> Conversely, suppose you want to expand but credit isn't forthcoming from the bank. You have a some options: raise capital in other ways, for example via a share issue, or exploit your workers more, for example with longer hours or more casual contracts, or find cheaper feedstocks, so your profits rise enabling more to be invested, or you find a way of charging more for the same thing (smaller pack sizes, for example). Or, maybe you delay expansion for now.

So credit enables the expansion of production and its absence can be a limiting factor, but it isn't actually the cause of expanded production.

In our piece on PM's 2018 paper we concluded that the

“...error of PM then, is to see the provision of credit as primary, as driving capitalist accumulation, rather than something that emerges from it, more or less keeping pace with it, but far from driving it.”[9]

Nor is the growth imperative something that kicks in only when production (or economic activity) slows: it is always there, and indeed given its location in the competition among capitalist entities, it is enhanced in times of boom, not limited. PM's causality is back to front.

ToG goes on to explore the phenomenon of financialisation. They argue firstly that banks have, since financial deregulation in the 1980s, massively increased their loans to the Finance, Insurance and Real Estate (FIRE) sectors at the expense of industrial production.

> *This pattern of financialised bank lending generates a high burden of private debt, without fostering productive, income-generating economic activity that can service this debt. The high private debt burden amounts to a growth imperative starved of growth.* (ToG, p. 21).

This, though, is only part of the picture. Firstly the banks are only one element: most of the investment in capitalist enterprise is not financed by bank loans but by the creation of equities by companies themselves[10]. Secondly, production itself has shifted to the global South, and the relations between production there, and investment in the multi-layered financial systems of the core capitalist countries like the UK, is to say the least, obscure. To take one example, a large part of the value created in the factories of the global South is captured in the retail and FIRE sectors of the global North, such that John Smith, who has researched this in detail, concludes that the “D” in GDP is a lie[11].

These points are relevant because they suggest that PM's central focus on banking, and indeed on money, is to miss potentially more important and fundamental dimensions of the destructive capitalist system.

ToG goes on to present two scenarios:

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9 https://steadystatemanchester.net/2018/02/23/we-need-to-end-growth-dependency-but-how/

10 Assuming otherwise was an error made by Hilferding in his classic analysis of finance capital: see Lapavitsas, C. (2013). *Profiting without producing: How finance exploits us all*. Verso. Page 56.
The banks are just one part of an interlocking system of finance institutions that together provide the finance for capitalist production while also profiting from it. Lapavistas again, pp. 122-123. Norfield, T. (2017). *The City: London and the global power of finance*. London: Verso. pp.

11 Smith, J. (2012). The GDP Illusion: Value Added versus Value Capture. *Monthly Review*, *64*(3), 86–102. http://monthlyreview.org/2012/07/01/the-gdp-illusion
Smith, J. (2016). *Imperialism in the twenty-first century: Globalization, super-exploitation, and capitalism’s final crisis*. Monthly Review Press.

> *"Our financial system appears stuck between two undesirable scenarios: (i) excessive financialisation resulting in high private debt and low growth, causing financial crises; or (ii) low levels of financialisation, constraining private debt growth but driving higher levels of growth."* ToG, p. 23.

Neither of these is desirable, as PM note. However, these are two sides of the capitalist system. The former emerges when profitability of the core productive sector falters. Mavroudeas and Papadatos[12] wrote a critique of the "financialisation hypothesis", which they summarise as follows:

> *"It maintains that capitalism has undergone a radical transformation over at least the past three decades. The financial system, through a series of innovative mechanisms, has conquered the commanding heights of capitalism and has changed the whole system according to its own prerogatives. Concomitantly, the global capitalist crisis of 2008 is considered to have been a financialization crisis."*

They instead argue that it is instead a phase in the capitalist cycle, exacerbated by the persistent and long term fall in the average rate of profit.

> *"The whole financial house of cards depends on the extraction of surplus value in the sphere of production. In the aftermath of the 1973 profitability crisis, the subsequent waves of capitalist restructuring failed to resolve the crisis of over-accumulation. Despite the dramatic increase of labor exploitation (that is, the increase in the rate of surplus value), governments shied away from a decisive destruction of unviable capitals. Thus, profitability never recovered sufficiently. The last trick—together with the "globalization" that never extinguished the national economy, but increased pressure on both labor and unviable capitals — was the expansion of fictitious capital operations. But ... this stratagem has definite limits. Expansion through financial doping soon met the boundaries set by real accumulation, and the 2008 crisis erupted. The financial collapse was strictly geared to the problems of real accumulation."*

Such an analysis would imply that there is not a choice to be made between the two options identified by PM, excessive financialisation and low growth or its reverse, but rather that the system swings between these poles. This

12 Mavroudeas, S., & Papadatos, D. (2018). Is the Financialization Hypothesis a Theoretical Blind Alley? *World Review of Political Economy,* 9(4), 451. https://doi.org/10.13169/worlrevipoliecon.9.4.0451
Much of their argument is covered with empirical support in Roberts, M. J., & Carchedi, G. (2018). World in crisis: Marxist perspectives on crash & crisis. Haymarket Books.

would suggest definite limits to the broadly Keynesian policy approach of a return to State regulation of finance. Although that might bring other benefits, capitalist expansionary logic would continue.

Writing specifically about combatting capitalism's ecocidal trajectory, Frankel expresses the question clearly:

> *"Could it be that definancialisation['s] ... major measures will hurt segments of finance capital but not lead to the collapse of capitalism? Or are there distinct limits to definancialisation beyond which not just finance corporations, but the very character and growth of contemporary finance-led capitalism is substantially threatened?"* [13]

ToG does, however (after arguing, quite rightly, against the illusions of "green growth" [14]), ask the related question, could capitalism continue without growth?   To us it seems unlikely that it can, at least in the longer term, because the true motor of expansion, the growth of capital via the production process, is as intrinsic to capital as it is as inimical to a steady state economy. The ToG authors don't think it could either, but for a rather different reason.

Much discussion of this topic falls at the first hurdle by failing to define capitalism adequately, for example equating it to a market economy. ToG gets the definition partly right:

> *"(i) production of goods and services is, for the most part, carried out by wage-earning workers;*
>
> *(ii) this production is carried out primarily for the purpose of profiting employers that own the means of production; and*
> *(iii) the realisation of profit occurs via the sale of goods and services in markets, which operate under varying degrees of competitivity.*
> *By contrast, we define the broad notion of 'anti-capitalism' as any set of socioeconomic arrangements characterised primarily by more democratic ownership of the means of production."*

However this only seems to correspond to what Marx called simple reproduction, not the expanded reproduction that characterises the capitalist system, and the problem of expanding material flows.

> *"To accumulate it is necessary to convert a portion of the surplus-product into capital. But we cannot, except by a miracle, convert into capital anything but such articles as can be employed in the labour process (i.e., means of production), and such further articles as are*

13 Frankel, B. (2018). *Fictions of sustainability: The politics of growth and post-capitalist futures*. Greenmeadows. https://www.borisfrankel.net/fictions-of-sustainability p. 209.

14 Although they rather too perfunctorily dismiss the proposal for caps on resource use, as reviewed by Stratford among others, Stratford, B., 2020. The Threat of Rent Extraction in a Resource-constrained Future. *Ecological Economics* 169, 106524. https://doi.org/10.1016/j.ecolecon.2019.106524

> *suitable for the sustenance of the labourer (i.e., means of subsistence). Consequently, a part of the annual surplus-labour must have been applied to the production of additional means of production and subsistence, over and above the quantity of these things required to replace the capital advanced. ….. From a concrete point of view, accumulation resolves itself into the reproduction of capital on a progressively increasing scale. The circle in which simple reproduction moves, alters its form, and, to use Sismondi's expression, changes into a spiral."*[15]

Marx goes on to note that *"The more the capitalist accumulates, the more he is able to accumulate."*[16] Anticapitalism, then is more than economic democracy. This has profound implications for any political strategy.

ToG then offers a potentially helpful 2x2 matrix to characterise positions on capitalism and growth (putting, for example, the well known green growth advocates, M Mazzucato and M Jacobs, firmly in the pro growth, pro-capitalism quadrant, though some of the other designations of scholars, and the selections, could be argued with). They note that, *"even if some form of stable no-growth capitalism may be possible, it would require profound transformations in order to overcome its deeply embedded growth imperatives"*, and we can only agree, if for rather different reasons.

Next, ToG considers the question of whether interest-bearing credit necessarily means a growth imperative. In our previous piece we cited a modelling study by Jackson and Victor which suggested that under certain conditions it need not.

> *"Specifically, the results in this paper suggest that it is not necessary to eliminate interest-bearing debt* per se*, if the goal is to achieve a resilient, stationary or quasi-stationary state of the economy."*[17]

15 Marx, K. (1867/1976) *Capital Volume 1.* (pp. 726-727 of the Penguin edition). Quotation is from the alternative translation at https://www.marxists.org/archive/marx/works/1867-c1/ch24.htm#S1

16 As above, p. 729. Wallerstein explains this very succinctly: "... it was this relentless and curiously self-regarding goal of the holder of capital, the accumulation of still more capital, and the relations this holder of capital had therefore to establish with other persons in order to achieve this goal, which we denominate as capitalist." Wallerstein, I. (1996). *Historical Capitalism, with Capitalist Civilization*. Verso. p. 14.

17 Jackson, T., & Victor, P. A. (2015). *Credit creation and the 'growth imperative' - a quasi- stationary economy with debt-based money.* (PASSAGE Working Paper). Guildford: University of Surrey. Retrieved from http://www.prosperitas.org.uk/publications.html A version also published as Jackson, T., & Victor, P. A. (2015). Does credit create a 'growth imperative'? A quasi-stationary economy with interest-bearing debt. *Ecological Economics*, *120*, 32–48. https://doi.org/10.1016/j.ecolecon.2015.09.009

This is not the only piece of research that comes to this conclusion. Several other studies[18], all using variants of post-Keynesian modelling or theoretical analysis broadly conclude that so long as the interest is not re-invested in production but is consumed, for example via higher worker wages, then interest payments need not conflict with a steady state economy. Interest rates should also not be "too high". This is hardly surprising from the Marxist perspective: it is the reinvestment of profit as capital (i.e. into expanded means of production or into additional labour or the commodities from which other commodities are manufactured) that allows for expanded reproduction, i.e. the spiral of accumulation. To reiterate what Marx said: "*To accumulate it is necessary to convert a portion of the surplus-product into capital."[19]* This goes for interest (an indirect result of surplus value extraction) as well as profits (the direct result).

ToG, however, disputes these findings.

> *"The latest research on this topic (Svartzman et al., forthcoming), however, shows that the existence of interest-bearing debt cannot be treated as entirely independent from the high propensities to save and accumulate that are incompatible with a non-growing economy in these models."* (ToG, p. 25).

The argument in ToG, and in the cited Svartzman et al. chapter[20] (which the lead author of ToG, David Barmes, also a co-author with Svartzman, kindly shared with me) is that historically, the emergence of banking credit (what they call "interest-bearing debt money") was a distinct development in the

18 Barrett, A. B. (2018). Stability of Zero-growth Economics Analysed with a Minskyan Model. *Ecological Economics*, 146, 228–239. https://doi.org/10.1016/j.ecolecon.2017.10.014
Berg, M., Hartley, B., & Richters, O. (2015). A stock-flow consistent input–output model with applications to energy price shocks, interest rates, and heat emissions. New Journal of Physics, 17(1), 015011. https://doi.org/10.1088/1367-2630/17/1/015011
Cahen-Fourot, L., & Lavoie, M. (2016). Ecological monetary economics: A post-Keynesian critique. *Ecological Economics*, 126, 163–168. https://doi.org/10.1016/j.ecolecon.2016.03.007
Richters, O., & Siemoneit, A. (2017). Why can't we stop? A critical review on growth imperatives [Working Paper]. International Economics, Carl von Ossietzky University Oldenburg, Germany. http://www.voeoe.de/wp-content/uploads/2017/01/richters-siemoneit-why-cant-we-stop.pdf
Wenzlaff, F. et al. (2014). Theoretische Zugänge eines Wachtumsumszwangs in der Geldwirtschaft. Centre for Economic and Sociological Studies, Discussion Papers, 45. (Cited by Lange, S., 2018).

19 Marx, K. (1867/1976) *Capital Vol 1*, p. 726. work cited.

20 Svartzman, R., Ament, J., Barmes, D., Erickson, J. D., Farley, J., Guay-Boutet, C., & Kosoy, N. (2020). Money, interest rates and accumulation on a finite planet: Revisiting the 'monetary growth imperative' through institutionalist approaches. In R. Costanza, J. D. Erickson, J. Farley, & I. Kubiszewski (Eds.), *Sustainable Wellbeing futures: A research and action agenda for ecological economics* (pp. 266–283). Edward Elgar Publishing.

"institutionalization" of capitalism and its multiple growth imperatives[21]. *"The generalized issuance of money at interest, and the will of agents to endlessly accumulate that money, are thus two sides of the same coin."*[22]

To expand their argument a little, Svartzman et al. actually do accept the post-Keynesian findings that "that there is no mechanical impossibility to maintaining interest rates in a non-growing economy.[23]" They then go on to posit what they call an institutional economic analysis (basically an historical account of the interplay between institutions, the economy and finance), making three points.

> 1) The rate of interest is precisely what gives money a price and makes it a commodity capable of being stored and accumulated infinitely.
>
> 2) Banks' ability to offer credit transformed their role from *"intermediaries into into credit creators who can largely dictate how money - that is, economic value - is created".*
>
> 3) Private financial organisation and the State have become entangled, with the State acting as legitimator and guarantor of the unit of account (i.e. the money created through banking.

Consequently, that argue that it is simplistic to isolate interest from the entire system of economic and financial relations under capitalism. That is hardly controversial and none of these insights is alien to the more rigorous analysis of money in Marx's own work. However, unlike Marx, this account, and that of the authors on which it rests (and a number of others, including PM) falls into the trap of characterising money under capitalism as "debt-based money". This is an oversimplification. Money has three aspects, whether under capitalism or not: a measure of value (the universal commodity), a medium of circulation and an object of hoarding. Under capitalism, various forms of credit arise (commercial credit, banking credit, loanable capital) and a division of labour also emerges between industrial, commercial and financial capitalists (and capitalist institutions). Those pre-capitalist aspects are preserved throughout, and during periods of crisis there is typically a rush back to cash, as equities (fictitious capital – whose valuation is based on their potential sale) are converted into cash (or its electronic equivalent)[24]. The money system is not so much debt-based as permeated by credit relations[25].

21 The article argues that the Institutional Economics school can make a valuable contribution to ecological economics, which often follows a post-Keyenesian approach.

22 Svartzman et al. Work cited. p. 279.

23 Svartzman et al. p. 279.

24 De Brunhoff, in her presentation of Marx, is very clear on this. De Brunhoff, S. (2015). *Marx on money* (Second edition). Verso.

25 There is a good discussion of modern finance from a Marxist perspective (although it is arguable that he overplays the financialisation hypothesis) in Lapavitsas, C. (2013). *Profiting without producing: How finance exploits us all*. Verso.
Marx's theory of money is pulled together in the rather dense but short text by Suzanne de Brunhoff.

Credit is a very important dimension of money under capitalism but money is not reducible to it. The point is critical because we need to understand the "leverage points" that could be used to cause system-change. It seems most unlikely that credit can be made to disappear, and as such, money will continue to take on the form, and relations, of credit at various points in its circulation.

ToG concludes from its discussion of the role of interest that,

> *"As a key pillar of the capitalist system, interest-bearing debt is deeply linked to the system's multiple growth imperatives, and we find no convincing evidence that it could comfortably co-exist with a non-growing economy." (ToG, p. 25).*

The evidence seems to be that it could so long as the proceeds are not re-invested in expansion[26]. Production could still go on, surplus could be used for consumption and for repair and maintenance of the means of production, and it would have some capitalist (as defined above in ToG) characteristics. But it would lack the *sine qua non* of modern capitalism, the endless self-expansion of capital, which we see as economic growth. We'll come back to the feasibility of such a model.

So to summarise, ToG rightly infers the existence of growth imperatives in the capitalist system but it identifies those in the banking system and interest-bearing credit. In contrast, we see the imperative as located, primarily, in the production process and the struggle of capitalists to overcome the internal and external contradictions that arise from it.

So far, the discussion has been rather abstract. Before moving on to PM's concrete proposals in ToG, it is worth making some further observations about the geography of production and the role of credit. It has been argued here that credit plays a supportive rather than determinative role in the expansion of production, and hence material flows, under capitalism. It was also noted that much production takes place beyond the shores of the UK, and this is so for all the countries of the global North. Controlling the expansion of finance capital could only affect that outsourced production insofar as the investment is in those industries. Some, is, directly or indirectly but, for example, the measures suggested will have little impact on the capitalisation of Chinese industry, where much of the credit is generated

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(cited above).

26 That is, so long as simple rather than expanded reproduction took place. There is room for debate on this matter; a system of labour exploitation (workers sell their labour to capitalists who expropriate surplus value) with simple reproduction would still be capitalism, of a sort. However, apart from small firms, relatively insulated from competitive pressures, it does not appear to equate to (ever expanding) capitalism as we know it. Perhaps a regulated capitalism with only simple reproduction (as found in many family businesses and small enterprises) could be a half-way house to a sustainable, and socialist reality.

within the PRC[27]. The situation with, say, Brazilian agribusiness is likely to be different, with a greater penetration of UK and other Northern finance capital. Without going into detail, the point is that the specifics are important.

However, all that outsourced production (of food, consumer goods, electronic gadgetry, hydrocarbon fuels, etc., etc.) has to find a market. One large sector is UK household expenditure. Much of that has been supported by mushrooming consumer credit, and also by equity release from housing price inflation. It does make sense to restrict those two streams, consumer credit and property price inflation. However, that probably would be best done by specific policy instruments (tightening of the rules for extending credit and property and land taxation) rather than by grand changes to the organisation of the money system.

Changing money and the financial system: an assessment of Positive Money's proposals

ToG goes on to propose a number of policies that could contribute to the goal that *“money and credit must flow towards activities that align with the social and environmental objectives of a post-growth economy”.*[28] Note that this corresponds to supporting clean versus dirty economic sectors, which doesn't necessarily correspond to to controlling the growth of GDP and material flows.

What is rather interesting is that the key plank of the former PM report, “sovereign money”. has apparently been dropped. The new proposals fall under three categories: (i) access to public means of payment; (ii) access to credit; and (iii) immediate redistribution of power. They also acknowledge the role of other policy proposals that don't directly address money and credit relations and also call on the Treasury to conduct “a formal inquiry into reducing the growth dependency of the UK economy”.

Access to public means of payment

1. Central Bank Digital Currency & Universal Basic Income.

The proposal is twofold. First, citizens would be able to open a bank account with the Bank of England. This would mean, as I understand it, that they would then be able to bypass the private banks, if they so wished, to make payments and receive income through that channel. PM suggests that this would reduce the risk from commercial bank insolvency. At present there is a deposit guarantee scheme, underwritten by government, for £85,000 per person per banking firm so unless that were to be withdrawn, the attraction seems limited. Secondly, however, PM proposes that a Universal Basic

27 https://www.imf.org/external/np/fad/publicinvestment/pdf/csupdate_jan17.pdf

28 ToG, p. 26.

Income be paid into that account. This is a separate idea that requires full and separate treatment[29]. Insofar as a “Central Bank Digital Currency” would reduce the profits of the private banks, then it might be welcome. However, whether citizens would be better served by a Central Bank or a non-profit and citizen owned and controlled financial organisation (see below) is a moot point.

ToG does not advance a rationale for these two ideas appearing as ways of reducing the growth imperative under capitalism other than indicating that it would reduce debt levels and reduce reliance on private banks. A more detailed argument (and a counter-argument) could be made.

2. Complementary Local Currencies

Complementary local currencies have been long advocated by many in the post-growth and degrowth movement and allied groupings. ToG indicate that they can foster stronger local economic ties. To elaborate the point, they could encourage the relative insulation of local economies from the dominant system, keeping financial flows local (“plugging the leaks”) and denying profit to “extractive” companies. They at least encourage a greater consciousness about the local economy. The evidence on their impact is not strong and in a review we concluded that they were best considered as part of a linked system of local economic institutions, in which case they can, under some conditions be effective[30].

ToG also argues that they can be particularly helpful under conditions of economic stress. They mention a number of cases in the 1930s. There was also an upsurge of such schemes in Argentina following the dollarisation-based crisis at the turn of the century. However, in both cases the schemes withered away, or in some cases were closed down by governments uneasy about their subversive impact. We think there is some scope for them, especially as our economies and societies inevitably encounter more systemic eco-geopolitical shocks. Whether of not they constitute counter-growth initiatives would depend on the circumstances and their design[31].

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29 For what it's worth, the author supports a temporary UBI during times of crisis. As for a permanent arrangement, there is an advantage in the simplification and removal of stigma from the benefits system, but there are a number of dangers there. Other members of SSM are more enthusiastic. See Carolyn Kagan's pieces on UBI here: https://steadystatemanchester.net/2016/05/09/universal-basic-income-or-citizens-income-a-digest-of-issues/ and https://steadystatemanchester.net/2017/03/15/universal-basic-income-is-it-the-only-cornerstone-of-a-just-society/ We also discuss the idea and a possible alternative, Universal Land Rights, in *The Viable Economy*: https://steadystatemanchester.files.wordpress.com/2020/02/the-viable-economy-revision-for-2nd-edn-v2.4-final.pdf

30 https://steadystatemanchester.net/2018/05/01/the-viable-economy-and-viable-finance/

31 Dittmer critically reviews complementary currencies in relation to achieving a steady state economy. Dittmer, K. (2013). Local currencies for purposive degrowth? A quality check of some proposals for changing money-as-usual. *Journal of Cleaner Production*, *54*, 3–13. https://www.researchgate.net/publication/248381463_Local_currencies_for_purposive_degrowth_A_quality_check_of_some_proposals_for_changing_money-as-usual

Access to credit

These proposals are meant to take the provision of credit out of the hands of the private banks and, seemingly, to offer an alternative to "interest-bearing debt".

3. Direct clearing facility.

This involves "simple accounting systems that record debits and credits between firms when they trade with each other. The overall balance always sums to zero." It is not unlike the bills of credit that merchants and later industrial capitalists commonly used historically. These formed a basis for commercial credit, which then hybridised with interest bearing credit offered by financial institutions[32]. This might suggest some difficulties in "keeping the system pure".

As ToG notes, there is such a system in operation in Switzerland, the WIR. It has been running for many years and is one of the few complementary exchange systems that has reached, and maintained, a viable scale.

ToG also suggest that the Bank of England get involved, seemingly as an enterprise to enterprise equivalent of the digital currency proposal discussed above.

Again the question poses itself: to what extent would these ideas act as a brake on the growth tendencies of the present system? It would be a topic for some macroeconomic modelling.

4. Public banking.

Again the idea is to provide an alternative to the commercial banks. Presumably the proposed infrastructure of large and small public (not privately owned) banks would operate like the Triodos Bank, which, as I understand it, only makes loans on the basis of the deposits it receives: at least this proposal is seen as an alternative to "creating money by allocating credit".

Most attractive about this idea is the establishment of institutions with a fundamentally different mission from the commercial finance sector: positive support for, and investment in, the green, community, mutual and local dimensions of the economy. It might also mean a more resilient financial system since "relationship banking" would likely reduce risky loans while the dispersed and plural nature of the system would mean failure of one element would be unlikely to pull down the rest of the system as nearly happened in 2008.

It could be a counter-growth initiative but the likely impact needs to be quantified and the design principles clearly laid out.

32 De Brunhoff work cited, p. 80.

In our previous critique we set out the parameters of a possible system (in that context as an alternative to the PM sovereign money proposal). It is reproduced as an Appendix to this piece.

Immediate redistribution of power

The proposals under this heading are meant to be more rapidly deployable than the foregoing reforms.

5. Modern debt jubilees

The cancelling of debt, especially for the poor who cannot in any case repay it, is to be welcomed. ToG suggested this is done centrally by Central Bank creation of money which is then distributed to (indebted?) households in order to pay down debts. They suggest the Treasury and Bank of England consider options and put together a scheme.

Cancellation of debt is unlikely to be a major brake on the overall growth tendency of our present system: applied across the board it could actually stimulate consumer spending. It could, however, reduce the objective destitution of many households, burdened with unpayable debts and the need to labour incessantly to meet those obligations.

6. Monetary financing.

PM are here proposing that the government and or the Bank of England fund public expenditure by the creation of new money rather than by adding to government debt. The precedent is Quantitative Easing, the purchase of bonds by the Central Bank (Bank of England in our case), which flooded the financial institutions with liquidity which then mostly found its way into further speculation. PM are proposing something not unlike the Green or People's QE idea, with the main aim of avoiding the building up of debt.

This idea seems to draw on thinking of the Modern Monetary Theory (MMT) school, which argues that a government with its own central bank and sovereign money[33] need never run out of money[34]. Soon after the release of ToG, and in response to the Covid-19 crisis, the Bank of England in effect did effect what appears to be monetary financing of government expenditure, distinct from QE, shortly after the governor, Andrew Bailey had ruled out the idea. However, it seems to be a short term emergency measure, as was previously made in 2008, not an adoption of Positive Money's monetary

33 The UK, the US, and many other States but not the countries of the Eurozone, individually, since they share a Central Bank.

34 For a sympathetic overview from a non-MMT post-Keynesian economist see Michell, J. (2020). MMT: History, theory and politics. https://criticalfinance.org/2019/11/22/mmt-history-theory-and-politics/
For a critical left view, see Henwood, J. (2019). Modern Monetary Theory isn't helping. *Jacobin*, https://jacobinmag.com/2019/02/modern-monetary-theory-isnt-helping

financing proposal as the policy norm. It is done by increasing the "size of" the government's account at the BoE to an unlimited limit (from a mere £370M)[35].

Interestingly John McDonnell's team rejected the adoption of MMT, after giving it some consideration[36]. The problem is that the creation of money does not create value. So there is ultimately a reckoning. In weak, peripheral economies this "printing of money" has led to hyperinflation. Here the risks of that are lower but it would mean an effective devaluation (more money in the system without the value creation to back it). The empirical Marxist economist, Michael Roberts, explains the problem clearly:

> *"Yes, the state can print as much as it wants, but the value of each dollar in delivering productive assets is not in the control of the state where the capitalist mode of production dominates. What happens when profits drop and a capitalist sector investment slump ensues? Growth and inflation still depends on the decisions of capital, not the state. If the former don't invest (and they will require that it be profitable), then state spending will be insufficient."* [37]

And in a country reliant on imports, like the UK, unless you can "print" US dollars, the global reserve currency, in which global commodities are largely priced, then the value of the national currency will reduce on creating large amounts of it without underpinning value creation.

7. Reformed tax system

PM recognises that some of the above proposals could be counter-effective, for example minting money to pay off debts would enrich creditors. They propose dealing with this via taxation reform which could also address other aspects of the current malign system. Specifically they suggest taxing high incomes more, as well as taxes on wealth, financial transactions and property and land. We don't disagree.

Finally ToG calls for the abandonment of the GDP indicator and its replacement by a dashboard of measures of economic well-being that clearly (following Max-Neef, and Doyal and Gough) separates fundamental needs from economic need satisfiers. Decision-making would move away from an economistic Cost-Benefit analysis to the use of frameworks based on multiple criteria.

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35 Coverage in the Financial Times https://www.ft.com/content/664c575b-0f54-44e5-ab78-2fd30ef213cb

36 See Meadway, J. (2019, June 3). Against MMT. *Tribune*. https://tribunemag.co.uk/2019/06/against-modern-monetary-theory and Reynolds J. (2019, June 4). Why Labour doesn't support Modern Monetary Theory. *Labour List.* https://labourlist.org/2019/06/why-labour-doesnt-support-modern-monetary-theory/

37 https://thenextrecession.wordpress.com/2019/02/08/the-green-new-deal-and-changing-america/ See also his detailed examination and critique of MMT: Roberts, M. (2019). Modern Monetary Theory: A Marxist Critique. *Class, Race and Corporate Power*, *7*(1). https://digitalcommons.fiu.edu/classracecorporatepower/vol7/iss1/1

Tackling the root causes

Has PM, in this ToG report actually latched onto the right issues? The answer is, to some extent. The report is in a number of ways more adequate than the previous one and the input from ecological economics is noticeable.

However, we are not convinced that the right issues have been selected. Our view can be summarised as follows.

Diagnosis	Key idea	Evaluation
Growth imperatives	These lie in the nature of money and the credit system, particularly the banks.	Causality is back to front: growth imperatives lie in the production system of expanded reproduction. Credit facilitates this. Banking is only one source of credit for capitalist expansion.
	Growth imperatives apply when the system stalls.	Growth imperatives are always there.
Financialisation	Financialisation is a key problem, changing the nature of capitalism. But removing it could mean that GDP growth is re-stimulated.	Financialisation is a phase in the long-term endemic crisis of capitalism. The problem is the capitalist mode of production.
Nature of capitalism	Separation of owners and workers. Workers produce and owners profit. Profit realised in market transactions.	Correct so far as it goes but misses the critical role of expanded reproduction: part of surplus product converted to capital which is re-invested.
Interest bearing credit and a steady state economy.	Unlikely to be possible because credit is intimately bound up with capitalism.	Would be possible if the state of simple reproduction were adhered to, i.e. interest not re-invested (but shared or spent on consumption[38]. However it is questionable that this is capitalism (i.e. system where capital is self-expanding).

38 Or better, social welfare and ecological restoration.

Money	Debt-based money is problematic and reform is needed to end it.	Credit is one dimension of money which combines a number of functions, pre-capitalist (universal commodity, means of exchange, store of value) with the credit relations that emerged under mercantilism and matured under capitalism. Taking credit relations out of money is infeasible.
Proposals		
1 Central Bank Money (a) and UBI (b)	a) Digital accounts for citizens held at the Central Bank (Bank of England).	Unclear why this is a counter-growth strategy. Substitutes a State entity for a private one: that could be two-edged.
	b) Non-discretionary payments to all citizens via Central Bank accounts.	Worth considering to mitigate severe economic shocks (e.g. pandemic impacts). Possibly a counter-growth initiative, if accompanied by highly progressive taxation on income to control consumer spending.

2. Complementary currencies.	Strengthen local economies by raising consciousness of the local economy and "plugging the leaks".	Worth considering on the grounds indicated (middle column) but evidence for their efficacy is limited. Likely to be of greater relevance as national economies fragment and as part of a system of alternative financial institutions. Possibly a counter-growth strategy.
3. Direct clearing facility.	Business to business exchange and credit system.	Could become integrated with the dominant systems of finance capital – design and governance would be critical. Unclear whether it is a counter-growth initiative, though could promote localism.
4. Public banking	New, community-based, citizen-owned and largely not-for-profit financial infrastructure.	Could encourage clean, local, social investments so well worth having. Could be counter-growth depending on context, design, and governance.
5. Modern debt jubilees	Debt cancellation or provision of money by the State to repay debts.	To be welcomed as a measure to take highly indebted households out of poverty. Would reduce profiteering from personal hardship. Applied more widely it would be unlikely to be counter-growth in effect.

6. Monetary financing	The State (government / Central Bank) conjures money into existence to fund green and public works.	Given the elasticity between money and the generation of value it is feasible as a temporary expedient but carries macro-economic risks. Unlikely to be counter-growth in nature since it would stimulate consumption and hence material flows.
7. Tax reform	Increase taxes on high incomes. Wealth, financial transactions and property and land taxes.	Essential measures to shift the economy towards greater economic justice and greener activity. Done in the right way it could be a serious counter-growth strategy.

But what would the alternative be?

If policy proposals are to be criticised then it is only fair to suggest some alternatives. The most recent list that we have produced from Steady State Manchester identifies thirteen broad proposals. These originated from a list first produced by Giorgos Kallis and colleagues[39] but they have been considerably amended, adapted and added to. Of these, numbers 4, 6 and 13 overlap with certain ToG proposals, while number 5 indicates a different approach to credit, i.e. ensuring that it's availability facilitates needed investment while limiting it both in scale and in its application. Lange (2018) in a thorough analysis of the post-growth macroeconomics also makes an interconnected set of proposals. Several items in our list overlap with his proposals, although they are formulated rather less abstractly here[40].

1. Stop subsidizing and investing in activities that are highly polluting. For example, UK government subsidy for fossil fuels is approximately £6.9bn p.a. & for aviation approximately £9Bn**.** Move this money to clean production.

39 https://degrowth.org/2015/05/15/yes-we-can-prosper-without-growth/

40 Lange, S. (2018). *Macroeconomics without growth: Sustainable economies in neoclassical, Keynesian and Marxian theories*. Metropolis-Verlag. Lange's synthesis of proposals is summarised in our review of his book: https://steadystatemanchester.net/2018/11/09/an-economy-that-does-not-grow/

2. Work-and resource sharing. Reduce the working week to less than 32 hours; support employers to facilitate job-sharing, with income loss for the top 10% only. Share wasted and badly distributed resources and the wealth of our abundant economy.

3. Minimum and maximum income. High incomes mean disproportionate resource use: cap them but also set a floor.

4. Tax reform for a progressive system that progressively taxes the use of energy and resources, wealth, property and land value. Frequent flyer and workplace parking levies. Tax financial transactions. Preferential tax rates for labour-intensive, low impact, services & goods.

5. Controls on credit. Money creation via credit is necessary for business but uncontrolled it leads to a spiral of unnecessary production and consumption. Impose regulation of bank lending for tight but cheap credit. Make it a requirement that share offers are for clean production and do not lead to the replacement of labour with technology.

6. Citizen debt audit and cancellation to eliminate unpayable household debts.

7. Support the alternative, solidarity society through subsidies and tax exemptions for co-operatives, social enterprises, community land trusts etc. De-privatisation of public space, opening up resources to community groups. Government level procurement to favour non-capitalist enterprise. Develop alternative, degrowth-consistent local credit alternatives[41].

8. Optimise the use of buildings. Retrofit, refurbish, downsize and share, saving fuel costs and emissions. Expropriate vacant housing. Respond to any remaining need by building low energy social housing, within already urbanised areas. Add a jobs-generating deep retrofit programme so property brought back into use is cheap to heat and has low emissions. Legislate to prevent speculation on property values and the bidding up of prices by estate agencies.

9. Reduce advertising and marketing. To tackle demand side drivers of excessive material consumption.

10. Establish environmental limits, via equitable, absolute and diminishing caps on the total of CO_2 that can be produced and the total quantity of material resources (material, water, land) used, including, via a foot-printing approach, emissions and materials embedded in imported goods.

11. Make international trade agreements conform with frameworks on climate change and consumption of nature.

12. Implement ecological footprint product, repairability and service labelling to make it easier for consumers to understand the ecological impact of their consumption choices – for example via extending energy ratings on appliances.

41 Gerber, J.-F. (2015). An overview of local credit systems and their implications for post-growth. *Sustainability Science*, *10*(3), 413–423. https://doi.org/10.1007/s11625-015-0298-4

13. Abolish or augment and qualify the misleading GDP indicator. Focus on real things- jobs, incomes, activity, investment, care, health, well-being and environmental restoration. However, rather than treating each of the three domains, economic, social and environmental, separately, use measures that reflect their inter-connectedness.

Taken together these options begin to restructure the economy away from rent-seeking footloose capital, favouring instead right-sized profits, commitment to place and non-capitalist entrepreneurial forms[42],or at least those are criteria that could be used to evaluate them.

The political economy of economic growth: on strategies for change.

There is something of a "Fabian" tone to the ToG report. That is to say it frequently resorts to formula such as "The ONS/government/Treasury/Bank of England *should* ...". These appeals for enlightened action are hardly going to cause change. This criticism also applies to our own proposals, as presented above. However, we would see change as based on a confluence of action at several levels, namely the construction of alternative economic and social relations on the ground, resistance to capital in workplaces and communities, and political action at the levels of the local and national State.

Long ago Engels identified the weakness of moral exhortation as a strategy for system change. The utopian socialists seemed to assume that,

> *"If pure reason and justice have not, hitherto, ruled the world, this has been the case only because men have not rightly understood them."*[43]

The Fabian tradition, so strong in the UK, is somewhat similar, with its reliance on the power of expertise in the hands of the State to make necessary (and in their case rather limited) reforms to the existing system.

ToG seems to exemplify these approaches with its combination of moral exhortation, the role of rational review by State institutions, and no mention of a political strategy. This seems to lack a necessary emphasis on the power interests at play, particularly on the part of incumbent firms and corporations. This will require a critical understanding of the role of the State as a guarantor and facilitator of capitalist social and economic relations. This is increasingly so in this neoliberal phase of capitalism but the problem goes beyond neoliberalism as such.

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42 On this concept see Robin Blackburn (1991) Fin de Siècle: Socialism after the Crash. *New Left Review* I/185, Jan/Feb 1991.

43 Engels, F. (1880/1892/1970). Socialism: Utopian and Scientific. Marx/Engels Selected Works, Volume 3, p. 95-151. Moscow: Progress Publishers. Online Version: Marx/Engels Internet Archive 1993, 1999, 2003. https://www.marxists.org/archive/marx/works/1880/soc-utop/index.htm

Engels might add, where are the contradictions of the system that can be used by an organised political movement to exert leverage and force system change? A political strategy is needed, linked up with other political and social movements that are engaged in the contested terrain of the State and the other societal institutions, but that will inevitably mean debate and transformation of the policy platform on which to organise. This critique could be seen as part of that debate.

Conclusion

Positive Money is to be commended for its efforts in helping to bring the deep and systemic problem of Economic Growth to the public eye. While this report is a great improvement on their previous report of 2018, and contains some worthwhile policy ideas, its overall diagnosis of the growth imperative, and hence how to neutralise it, is misguided, relying on a fetishisation of the money system[44] at the expense of the deep structures of capitalist accumulation.

44 Dussel, E. (2014). *16 tesis de economía política: Interpretación filosófica*. México D.F.: Siglo XXI. "The capital that delivers interest is a fetishised form par excellence, because the distance of the place where capital obtains its surplus value from the worker is removed in such a way that it does not appear to have any relation with the interest obtained in the banks by the lending of money." §7.51 (my translation).

Appendix: outline of a citizens' banking system

The following paragraphs appeared in our 2018 piece “We need to end growth dependency, but how?”, as an alternative to Positive Money's then proposal for nationalised “sovereign money”. Since preparing this, a comprehensive report on community banking has been published by the RSA and this is worth referring to[45].

Consider this alternative scenario: a community-based bank is set up. It is financed by local people’s savings, local business deposits, and some seed funding from anchor institutions. It offers loans to local businesses, with strict environmental and social criteria. But the money it lends out is not (directly) restricted by the money deposited with it. Instead it can lend more than it has in its own account. But it is not going to do that to the extent that it is over-stretched. This is due to a) the terms of its banking licence which require sufficient reserves, and b) its own constitution and governance safeguards. The result is that the local economy has a sound source of ethical credit. The risks of over-extension are managed by the application of sound criteria and access to reserves to manage fluctuations in demand for repayment of deposits. Neither the money nor the bank is nationalised but nor is either private.

Now consider that model extended across the country. These banks are linked together to pool risks but they work in their communities, using local knowledge to make loans that those local economies and communities need.

Rules are established to regulate the setting of interest rates and to ensure the banks do not over-stretch themselves. These are made locally but there is national legislation that sets the overall parameters. Credit is quite cheap but not given out willy-nilly (there are no shareholders who have to be paid on the basis of the “spread” between deposits and loans).

Bundling up of liabilities is prohibited and so is speculative lending on housing.

These banks look like a cross between mutual building societies and savings banks. They make a profit but this is returned to the community after necessary investment in the bank's operations (e.g. opening a new branch, upgrading IT systems).

45 https://www.thersa.org/globalassets/bridges-campaign/invest-in-communites/rsa-road-to-resilience-community-banking.pdf

The government centrally takes part in the financing of appropriate economic activity by issuing a series of bonds. These are a safe haven for savings and appear as public debt in the national accounts. They (and similar vehicles) are also used by the local community banks to deposit money that they cannot immediately invest locally.

Not all features are described here but these are the elements of a sound, responsible and safe banking system. These banks do create money when they lend. But they lend responsibly. Their operations are governed properly. They do not speculate and create financial bubbles. Debt and credit are parts of the system. Elements of this system already exist, and in other countries, such as Germany, something not dissimilar is a third part of the overall banking system[46].

46 C. Choulet. (2016). *German Sparkassen: a model to follow?* BNP Paribas http://economic-research.bnpparibas.com/Views/DisplayPublication.aspx?type=document&IdPdf=28761 (not necessarily a disinterested source, but the information on the workings of the system is valuable).